

**NORTH DAVIS PREPARATORY  
ACADEMY**

**Financial Statements**

**June 30, 2005**

**(With Independent Auditors' Report Thereon)**

**NORTH DAVIS PREPARATORY ACADEMY**  
**Financial Statements**  
**Government Auditing Standards and Other Required Reports**  
**Year Ended June 30, 2005**

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**The Board of Directors  
North Davis Preparatory Academy, Inc.**

## Independent Auditors' Report

We have audited the accompanying statement of financial position of North Davis Preparatory Academy, Inc. (a not-for-profit corporation) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Davis Preparatory Academy as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 2005 on our consideration of North Davis Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Schmitt, Griffiths, Smith & Co., P.C.*

September 6, 2005



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**North Davis Preparatory Academy, Inc.**  
**Statement of Financial Position**  
**June 30, 2005**

**ASSETS**

Current assets:

Cash	\$ 227,667
Related party note receivable	3,239
Grant receivable	15,591

246,497

Property and equipment, net

239,853

\$ 486,350

**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable	\$ 23,461
Related party payables	51,333
Current portion of note payable	19,809
Accrued liabilities	98,346

192,949

Note payable

28,621

Total liabilities

221,570

Net assets:

Unrestricted	264,780
Temporarily restricted	-
Permanently restricted	-

Total net assets

264,780

\$ 486,350

**North Davis Preparatory Academy, Inc.**  
**Statement of Activities and Changes in Net Assets**  
**Year Ended June 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and gains:</b>			
Grants:			
Federal	\$ -	\$ 350,581	\$ 350,581
State	1,685,658	132,016	1,817,674
Local	29,397	-	29,397
Lunch sales	15,894	-	15,894
Net assets released from restriction	482,597	(482,597)	-
Total revenue, net of assets released from restriction	<u>2,213,546</u>	<u>-</u>	<u>2,213,546</u>
<b>Expenses:</b>			
Instructional - teachers	1,193,227	-	1,193,227
Instructional - aides	44,967	-	44,967
Administration operations	152,888	-	152,888
Student support service	59,016	-	59,016
Operation and maintenance of facility	478,429	-	478,429
Depreciation	18,883	-	18,883
Total expenses	<u>1,947,410</u>	<u>-</u>	<u>1,947,410</u>
Increase in net assets	266,136	-	266,136
Net assets, beginning	<u>(1,356)</u>	<u>-</u>	<u>(1,356)</u>
Net assets, end	<u>\$ 264,780</u>	<u>\$ -</u>	<u>\$ 264,780</u>

**North Davis Preparatory Academy, Inc.**  
**Statement of Cash Flows**  
**Year Ended June 30, 2005**

**Cash flows from operating activities:**

Increase in net assets	\$ 358,482
Adjustments to reconcile increase in net assets to net cash flows from operating activities:	
Depreciation	18,883
Changes in operating assets and liabilities:	
Grants receivable	(15,591)
Related party note receivable	(3,239)
Accounts payable	23,461
Related party payable	49,977
Accrued payables	6,000
Total adjustments	79,491
Net cash flows from operating activities	437,973

**Cash flows from investing activities:**

Acquisition of property and equipment	(258,736)
Net cash flows from investing activities	(258,736)

**Cash flows from financing activities:**

Issuance of note payable	48,430
Net cash flows from financing activities	48,430
Net change in cash	227,667
Cash, beginning	-
Cash, ending	\$ 227,667

**North Davis Preparatory Academy, Inc.**  
**Notes to Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies**

This summary of significant accounting policies of North Davis Preparatory Academy (the Academy) is presented to assist in understanding the Academy's financial statements. The financial statements and notes are representations of the Academy's management, who are responsible for their integrity and objectivity.

**Operations and Purpose**

The Academy was formed in 2004 and is a non-profit institution, which was organized under the non-profit corporation laws of the State of Utah. The Academy was organized by a group of parents, teachers, and business professionals to provide an educational opportunity in Layton that was not governed by the local school district. The Academy was founded on the premise that parents as partners in the learning process leads to success for each child. Every parent is asked to be involved with the school either through committees or through volunteering time in the classroom or with other needs the school may have as they arise.

**Method of Accounting**

The Academy prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Cash Equivalents**

The Academy considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

**Estimates and Assumptions**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**North Davis Preparatory Academy, Inc.**  
**Notes to Financial Statements, Continued**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies, Continued**

**Restrictions on Net Assets**

*Unrestricted Net Assets* – The unrestricted net asset balance pertains primarily to amounts that are not designated for specific purposes apart from minimum school requirements.

*Temporarily Restricted Net Assets* – Donor restricted support is reported as an increase in temporarily restricted net assets. Temporarily restricted net assets are funds that are subject to restrictions of time or use by the donor. The restrictions are removed after the specified dates or after the occurrence of an event specified by the donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. There was no temporarily restricted net asset balance at the year-end June 30, 2005.

*Permanently Restricted Net Assets* – Permanently restricted net assets represents the cumulative amount of endowment contributions received. Endowment contributions are principal amounts donated with the agreement that only future earnings on the principal be available for the operations of the Academy. There was no permanently restricted net asset balance at the year-end June 30, 2005.

**Contributions**

The Academy has adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

**Property and Equipment**

Property and equipment is recorded at cost. The Academy provides for depreciation of property and equipment using the straight-line method in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations. The estimated useful lives are between three and ten years and individual items with a purchase cost over \$500 are depreciated rather than expensed.

Depreciation expense for the year ended June 30, 2005 was \$18,883.



**North Davis Preparatory Academy, Inc.**  
**Notes to Financial Statements, Continued**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies, Continued**

**Tax Status**

The Academy is exempt from federal income taxes or excise taxes under Section 501(c) (3) of the Internal Revenue Code.

**Contributed Services and In-Kind Donations**

During the year ended June 30, 2005, many individuals volunteered their time and perform a variety of tasks that assist the Academy's facilities, but these services do not meet the criteria for recognition as contributed services.

**(2) Property and Equipment**

Property and equipment at June 30, 2005 are comprised of the following:

Furniture, fixtures and equipment	\$	80,867
Computers		80,340
Textbooks		83,547
Library books		10,048
Audio and visual materials		3,934
		<u>258,736</u>
Less accumulated depreciation		<u>(18,883)</u>
	\$	<u><u>239,853</u></u>

**(3) Related Party Transactions**

**Note Receivable**

At June 30, 2005, the Academy had a note receivable of \$3,239 from a related party. The note is to be repaid monthly through September 2005.

**Accounts Payable Transactions**

The Academy received non-interest bearing advances from Academica Corporation (Florida), an affiliate, for start up loans and payroll expenses. For the year ended June 30, 2005, related party accounts payable transactions totaled \$51,333. This amount is due in one year.

**North Davis Preparatory Academy, Inc.**  
**Notes to Financial Statements, Continued**  
**June 30, 2005**

**(3) Related Party Transactions, Continued**

**Operating Lease Agreement**

The Academy leases a facility under an operating lease with North Davis School Development, LLC, a limited liability company related by common management, expiring July 2008. Rental expense recognized under this lease for the year ended June 30, 2005 was \$351,661. Rent is adjusted during the life of the lease based on the consumer price index.

Future minimum lease payments under this operating lease are as follows:

<u>Years Ending June 30,</u>	
2006	\$ 401,040
2007	401,040
2008	<u>401,040</u>
	<u>\$ 1,203,120</u>

**(4) Grants**

The Academy received money in the form of grants from federal, state, and local sources. The total amount of grants received for the year ended June 30, 2005 is \$2,197,652.

**(5) Notes Payable**

The Academy has a note payable to a bank due in monthly installments of \$522 through 2007. The note bears interest at 3.9% and is secured by computers. As of June 30, 2005, the balance on the note was \$48,430. Future maturities on this note are \$19,809, \$21,169 and \$7,452 for the fiscal years ended June 30, 2005, 2006, and 2007 respectively.

**North Davis Preparatory Academy, Inc.**  
**Notes to Financial Statements, Continued**  
**June 30, 2005**

**(6) Retirement Plan**

The Academy has a defined contribution retirement plan covering all full-time, salaried employees. The plan is sponsored by A Plus Benefits, an outsource company that the Academy has contracted with, to perform its payroll and retirement functions. Eligible employees may contribute money into an account, at their option and discretion. The Academy does not match employee contributions. The plan accepts new enrollments at any time in the year after completing a 90-day probationary period. Contribution changes can be made quarterly on or before the 15<sup>th</sup> day of the last month of the calendar quarter. Contributions to the plan for the year ended June 30, 2005, totaled \$10,667.

# Schmitt, Griffiths, Smith & Co., P.C.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Board of Education  
North Davis Preparatory Academy, Inc.

We have audited the financial statements of North Davis Preparatory Academy, Inc. as of and for the year ended June 30, 2005, and have issued our report thereon dated September 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Davis Preparatory Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design to operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Davis Preparatory Academy's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Academy in a separate letter dated September 6, 2005



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This report is intended solely for the information of the audit committee, administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Schmitt, Griffitts, Smith & Co., P.C.*

September 6, 2005

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## Independent Auditors' Report State of Utah Legal Compliance

### Honorable Board of Education North Davis Preparatory Academy, Inc.

We have audited the basic financial statements of North Davis Preparatory Academy, Inc. for the year ended June 30, 2005 and have issued our report thereon dated September 6, 2005. As part of our audit, we have audited North Davis Preparatory Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The Academy received the following major state assistance programs from the State of Utah:

#### Minimum School Program

Our audit also included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Cash Administration
- Purchasing Requirements
- Budgetary Compliance
- Other General Compliance Issues

The administration of North Davis Preparatory Academy, Inc. is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed three instances of noncompliance with the requirements referred to above, which are described in the accompanying State Compliance Schedule of Findings.



In our opinion, North Davis Preparatory Academy, Inc., complied, in all material respects, with the exception of those items referred to in the schedule of findings, with the general compliance requirements identified above and the requirements governing types of service allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

*Schmitt, Dujiles, Smith: C.P.C.*

September 6, 2005

**North Davis Preparatory Academy, Inc.**  
**State Compliance Schedule of Audit Findings**  
**June 30, 2005**

**CURRENT YEAR FINDINGS – STATE COMPLIANCE**

**05-1 Treasury Bond**

*Condition:* The State of Utah requires that every public treasurer shall secure a fidelity bond, based on the current year's budgeted gross revenues, which includes all funds collected or handled by a public treasurer. In the current year, the Academy did not secure a fidelity bond based on the current year's budgeted gross revenue.

*Recommendation:* We recommend that the Academy secure a fidelity bond based on fiscal year 2005 budgeted gross revenue.

*Administration Response:* NDPA and its administration will secure a bond as recommended.

**05-2 Budget Approval**

*Condition:* The State of Utah requires that the budget be formally adopted and approved and recording thereof in the minutes. Our audit procedures indicated that the budget was formally adopted, but not recorded, per review of the Academy's minutes.

*Recommendation:* we recommend that the Board formally records the adoption of the yearly budget in the minutes.

*Administration Response:* Although a budget was formally adopted in an open and public board meeting for this reporting year, it apparently was mistakenly not reported in the meeting minutes. For the current and all subsequent years, NDPA will formally adopt its budget by recording it in the minutes.

**05-3 Cash Management**

*Condition:* The State of Utah requires that receipts be deposited within three business days of being received. During the fiscal year ended June 30, 2005, the Academy did not always deposit receipts within the three business day period.

*Recommendation:* We recommend that the Academy establish controls necessary to ensure that receipts are deposited within three business days of being received.



**North Davis Preparatory Academy, Inc.**  
**State Compliance Schedule of Audit Findings**  
**June 30, 2005**

**CURRENT YEAR FINDINGS – STATE COMPLIANCE, CONTINUED**

**05-3 Cash Management, Continued**

*Administration Response:* NDPA notes that as of November 2004 it no longer collects money for its lunch program as it has contracted with Davis Nutrition for the services and notes that is should not be an item of concern in the 2006 fiscal year.